

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7402

BILL NUMBER: HB 1419

NOTE PREPARED: Jan 13, 2013

BILL AMENDED:

SUBJECT: Personal Exemptions.

FIRST AUTHOR: Rep. Brown T

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☐ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill doubles the exemption amounts that may be claimed by individuals for the Individual Adjusted Gross Income (AGI) Tax.

Effective Date: January 1, 2013 (retroactive).

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the new tax credit. The DOR's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: This bill doubles the amounts of the Individual Adjusted Gross Income (AGI) tax exemptions specified in the table below. The revenue loss from these exemption increases could potentially total an estimated \$311 M in FY 2014 and \$317 M in FY 2015.

Exemption	Original Amount	New Amount
Standard Exemption	\$1,000	\$2,000
Additional Exemption for a Dependent Child	\$1,500	\$3,000
Elderly or Blind Exemption	\$1,000	\$2,000
Low Income Elderly Exemption	\$500	\$1,000

The changes are effective beginning in tax year 2013, so the revenue impact would begin in FY 2014. Increasing the exemption amounts will decrease taxable income and lead to a reduction in revenue from the individual AGI tax. The revenue impact associated with this bill was estimated by recomputing the tax liability of the 2010 tax returns using the new exemption amounts. The simulation found that doubling the exemption amounts decreased revenue by about \$292 M. The estimates for FY 2014 and FY 2015 assume an average annual growth rate of about 2%. Revenue from the individual AGI tax is deposited in the state General Fund.

Background Information -

Standard Exemption: Individual taxpayers may claim an AGI exemption of \$1,000 for each exemption claimed on their federal tax return (the exemption for the taxpayer, taxpayer's spouse, and taxpayer's dependents).

Additional Exemption for a Dependent Child: Individual taxpayers may claim an AGI exemption of \$1,500 for each of the taxpayer's dependent children younger than 19 years old, or for full-time students younger than 24 years old.

Elderly or Blind Exemption: Individual taxpayers may claim an AGI exemption of \$1,000 if the taxpayer is at least 65 years old, \$1,000 if the taxpayer is legally blind, or \$2,000 if the taxpayer is both. The exemption can also be claimed if the taxpayer's spouse is at least 65 years old, legally blind, or both.

Low Income and Elderly Exemption: Individual taxpayers may claim an AGI exemption of \$500 if the taxpayer or taxpayer's spouse is at least 65 years old and their AGI is less than \$40,000. If the taxpayer and taxpayer's spouse are both at least 65 years old the exemption is \$1,000.

Explanation of Local Expenditures:

Explanation of Local Revenues: The bill will decrease state taxable income, so counties with a local option income tax (LOIT) could experience a decrease in revenue. Using the median current LOIT rate of 1.45%, LOIT collections on a statewide basis could potentially be reduced by an estimated \$132 M in FY 2014 and \$135 M in FY 2015.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with a local county income tax.

Information Sources: LSA Income Tax Database.

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